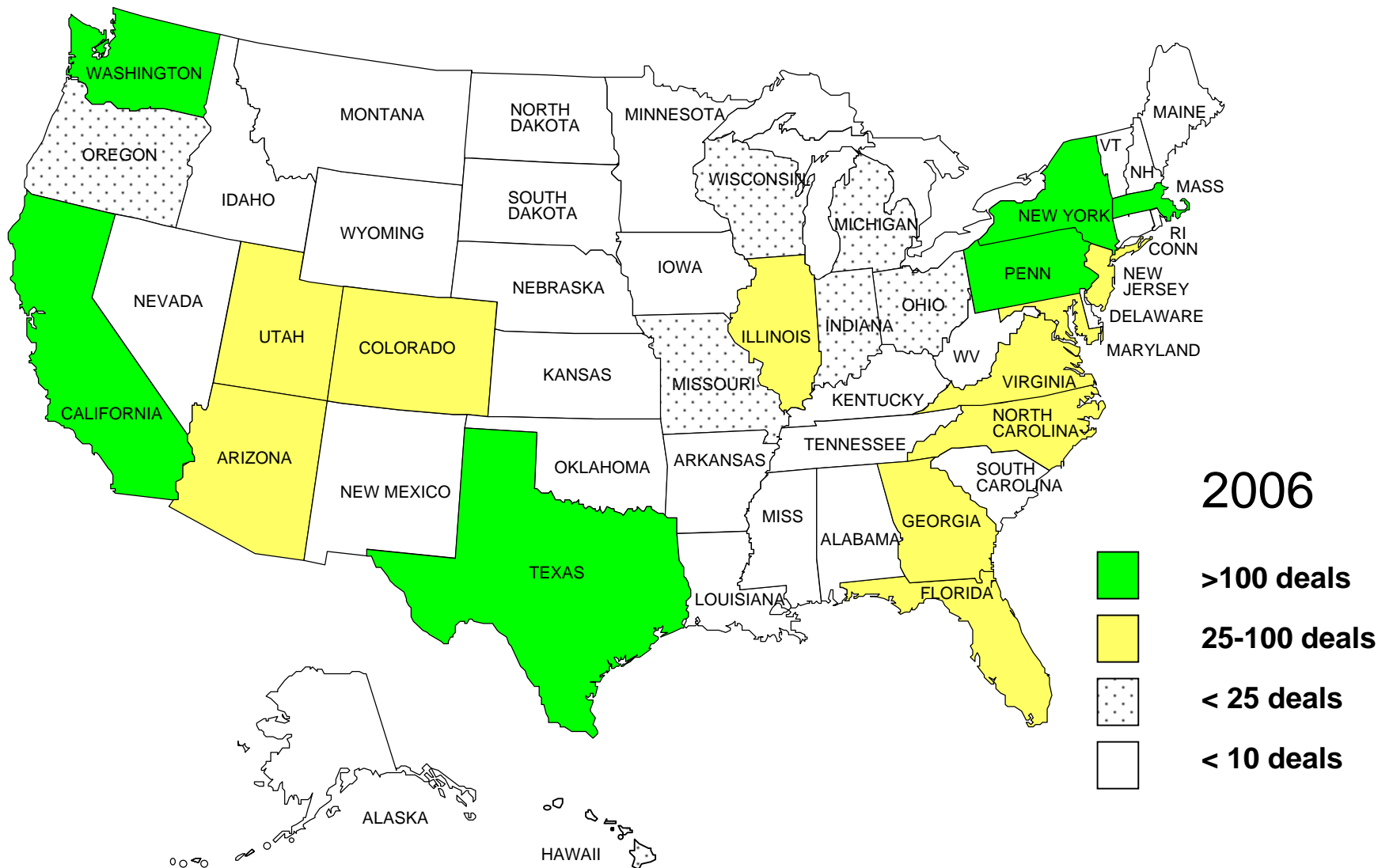




## **vSpring Capital**

**AN EARLY STAGE VENTURE CAPITAL FUND**

# US Venture Capital Fairly Concentrated



CONFIDENTIAL

# Utah has a proud history of breakthrough innovations, in spite of historically limited institutional investment in the state

- **Television.** Utah born, Philo T Farnsworth developed the world's first all-electronic system of television in 1927 at the age of 21!

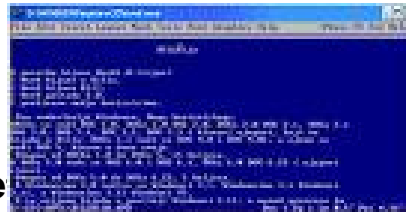


- **Computer Graphics.** David Evans and Ivan Sutherland U of U
  - Evans & Sutherland first computer graphics company
  - The founders of Adobe, Pixar, Silicon Graphics, Atari all came through the University of Utah Graphics Program



- **Digital Recording.** Thomas Stock Jr. University of Utah Professor invented digital recording

- **PC Word Processing**  
Word Perfect



- **Local Area Computer Ne**  
Novell Netware



- **Gigabit Ethernet. E**

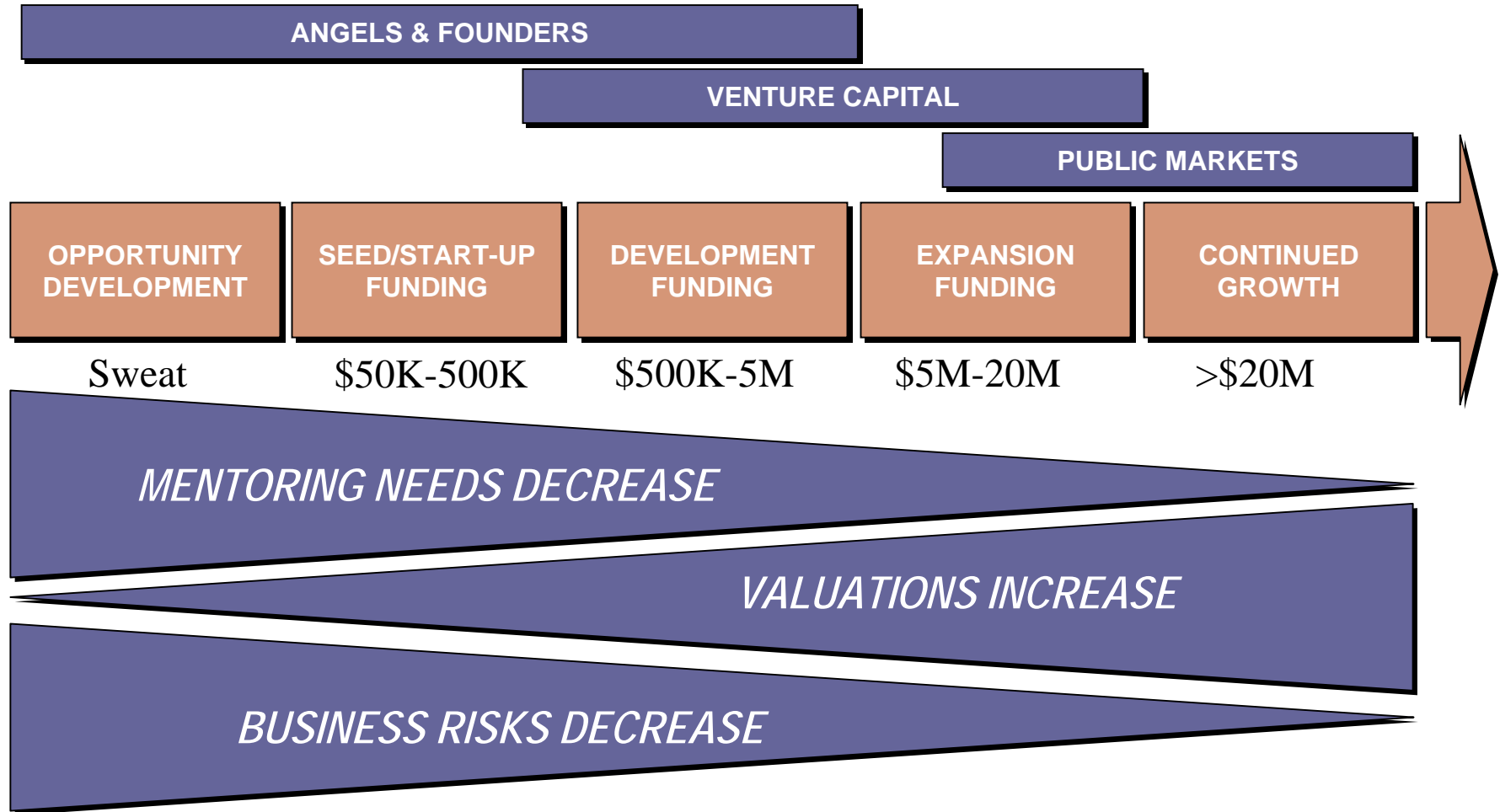


BYU's



telecommunications graduate

# Funding Continuum

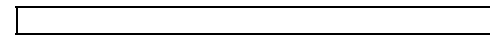




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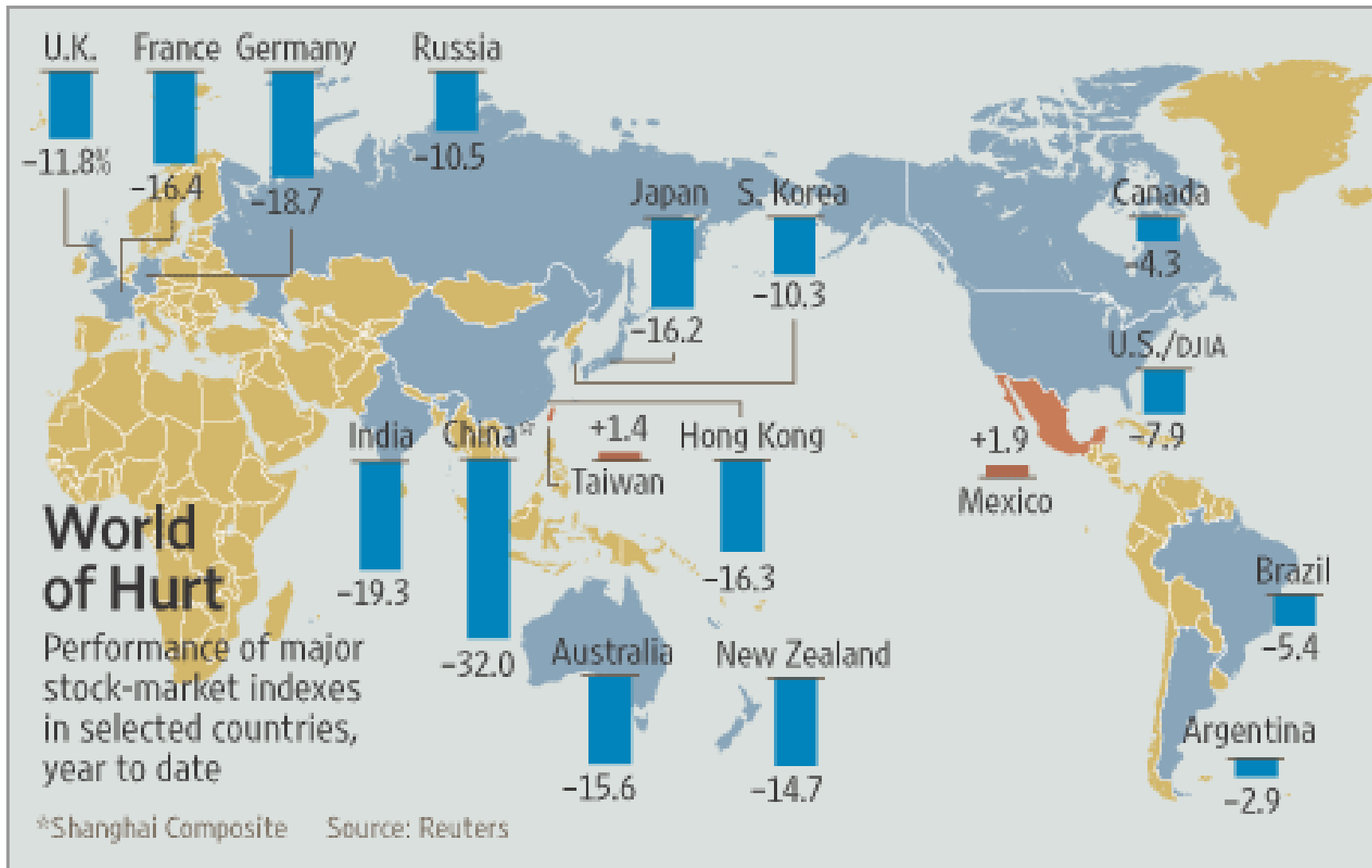
## Three Stages of PE/VC Investment in Emerging Markets

- 1. Cherry Picking** – External funds will opportunistically poach deals in the region
  - Example: vSpring's investment in Alianza
- 2. Hybrid** – Joint venture with a local firm
  - Example: Intel Capital's syndication of JackBe
- 3. Home Grown** – Establishment of several 100% locally managed firms
  - Mexico has now entered the third stage for Private Equity but is in stage 1 & 2 for Venture.

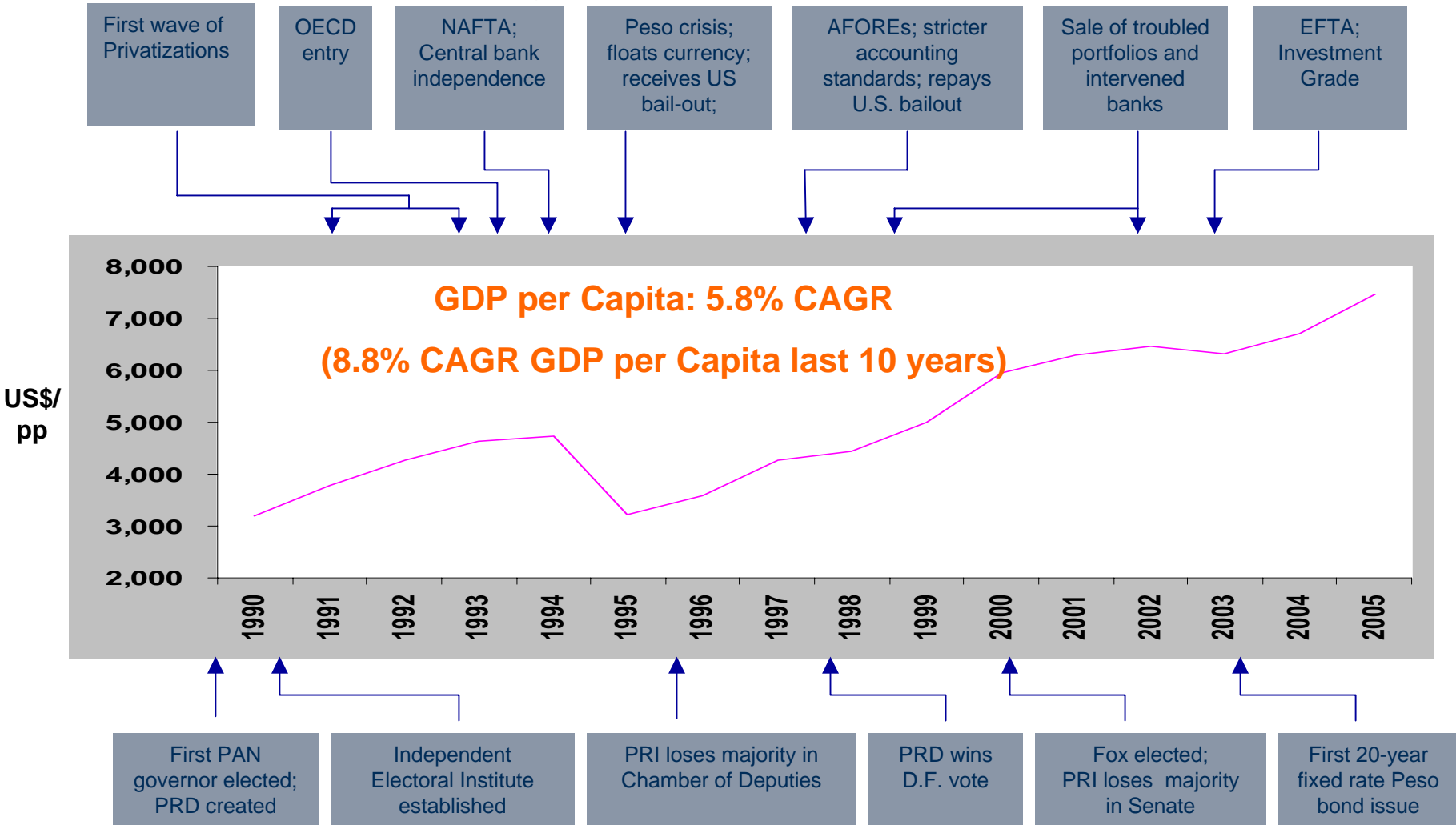


# TRUST - CONFIANZA

# Why is the Mexico up when the rest of the world is down?



# Mexico's political and market reforms have increased trust establishing a solid platform for growth and innovation over the next decade.





   
**Mexico's increasing trust is good for Mexico's VC industry.**

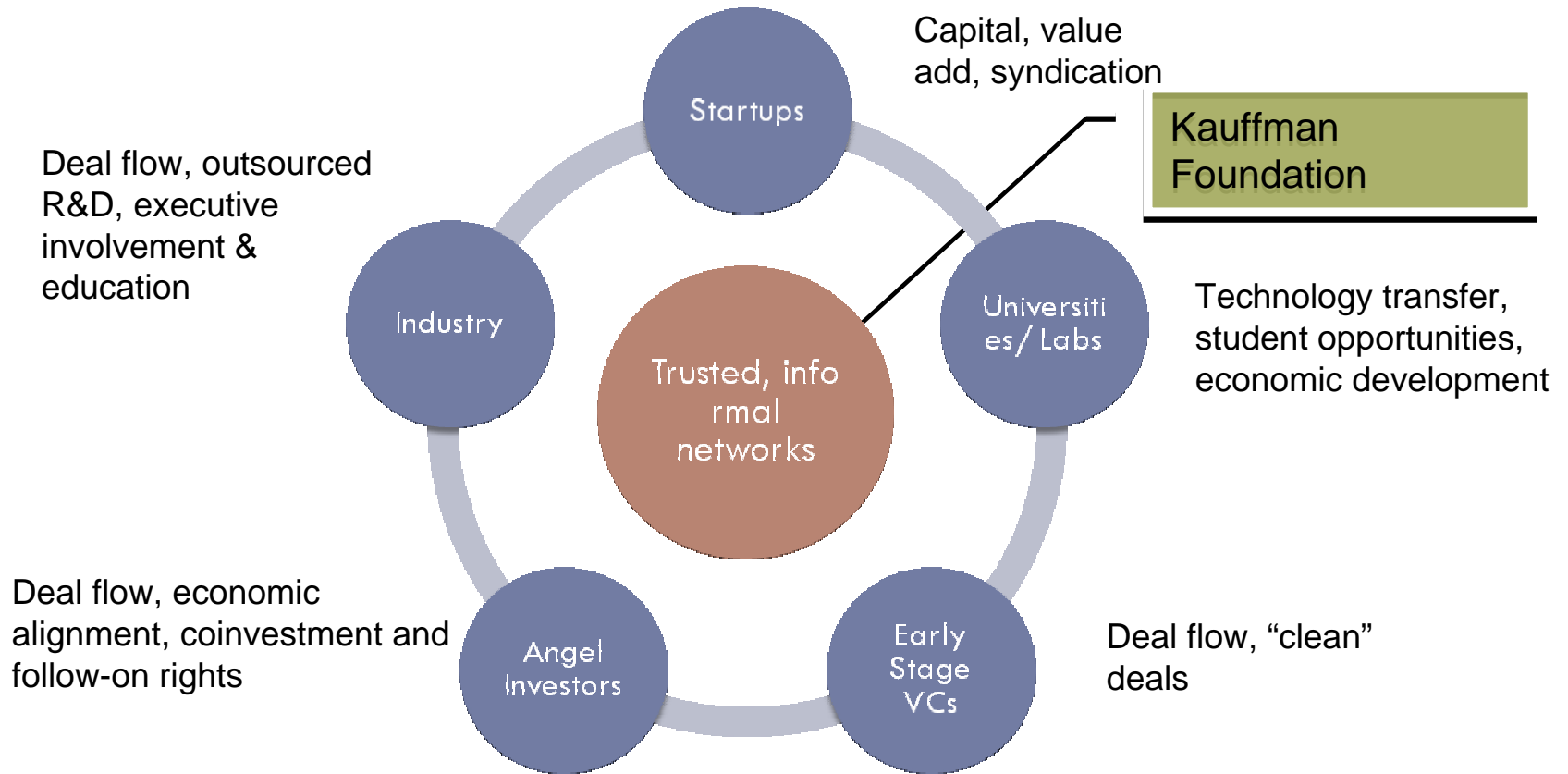
**TRUST enables**

➤ **FLEXIBILITY**

➤ **CREATIVITY**

➤ **INNOVATION...**

# Ecosystem Alignment: Trusted Informal Networks Drive Positive Outcomes



# SBA US Innovation Study: Capital Follows Innovation

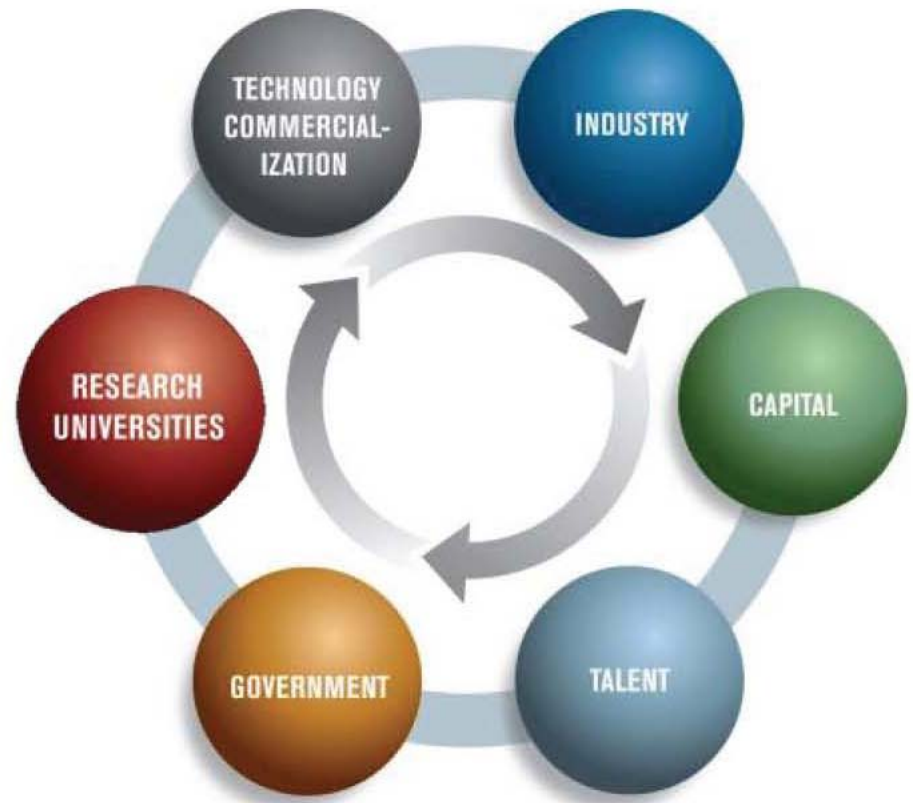
**Table 13: Most Innovative/Entrepreneurial Regions in the United States:  
Based on Average Relative Rankings on Innovation Capacity  
and Entrepreneurship Activity**

U.S. Region	Regional Size	Regional Innovation Capacity Index (Relative Rank)	Regional Entrepreneurship Index (Relative Rank)
1. Fort Collins, CO	Medium	98.7%	97.2%
2. Raleigh, NC	Large	99.7%	95.9%
3. Provo, UT	Medium	93.8%	99.4%
4. Austin, TX	Large	99.2%	92.6%
5. Boston, MA	Large	98.9%	92.8%
6. Denver, CO	Large	97.9%	93.6%
7. San Jose, CA	Large	100.0%	90.8%
8. Logan, UT	Small	91.8%	99.2%
9. Atlanta, GA	Large	93.3%	96.9%
10. Salt Lake City, UT	Large	92.1%	97.9%
11. San Francisco, CA	Large	99.4%	90.3%
12. Boise, ID	Medium	91.3%	97.4%
13. Minneapolis, MN	Large	96.9%	89.8%
14. Phoenix, AZ	Large	91.6%	95.1%
15. Portland, OR	Medium	92.6%	91.8%
16. Burlington, VT	Medium	95.9%	87.7%
17. Colorado Springs, CO	Medium	88.5%	95.4%
18. Glenwood Springs, CO	Small	83.9%	100.0%
19. Tucson, AZ	Large	93.1%	87.0%
20. Dallas, TX	Large	95.6%	83.2%

# Maturity, Alignment and Trust in Ecosystem Increases Positive Outcomes

*“Technological innovations have contributed more than any other single factor in America’s economic history to growth.”*

Alan Greenspan, Former  
Federal Reserve Chairman



# High correlation between technology strength and VC Investment

- **Romain Study.** Technological strength (patenting, R&D investment, etc.) were significant predictors of increased VC investment per country.
  - Romain, A. and B. v. Pottlesberghe. 2004. “The Determinants of Venture Capital: Panel Data Analysis of 16 OECD Countries” Unpublished Working Paper (April).
- **Guler Study of Patents & Scientific Publications.**
  - One standard deviation increase in a nation’s **U.S. patents** = 78% increase in US Venture dollars into that country.
  - One standard deviation increase in **Scientific Publications** = 113% VC investment increase
    - No other measures including stock market capitalization, political constraints, or number of students studying in the U.S. were as important.
    - Guler, I. and Guillen, M. F. 2005. “Institutions, Networks, and Organizational Growth: The Internationalization of the U.S. Venture Capital Firms.” (November).



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## Mexico Has Limited R&D Spending & U.S. Patent Applications

- **Mexico's gross domestic expenditure in R&D (GERD) was 0.4% of GDP in 1999.**
  - 0.4% Mexico
  - 2.2% Spain,
  - 2.6% in the U.S.
  - 3.0% in Japan.
    - Average GERD for countries that belong to the Organization for Economic Cooperation and Development (OECD), was 2.2%. Mexico was the lowest of all OECD countries.[\[1\]](#)
- **Limited US Patent Applications from Mexico – from 1963 to 2001**
  - Mexican inventors filed 0.06% of all patent applications filed with the U.S. Patent and Trademark Office (USPTO).
  - And Mexico filed 0.15% of total patent applications filed by non-U.S. citizens with the USPTO [\[2\]](#)

[\[1\]](#) Fabre, F and Smith, R. 2003. "Building an Entrepreneurial Culture in Mexico." (May).

[\[2\]](#) Kappaz, C. and McNeece, J. 2004. "Review and Action Plan for Development of the Venture Capital Industry in Mexico." (May).



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# World Bank Study: Secrets of Intangible Wealth

- “A Mexican migrant to the U.S. is five times more productive than one who stays home.”
  - Wall Street Journal Sept. 29<sup>th</sup> 2007
- Intangible Wealth
  - Average American has access to \$418,000 in intangible wealth
  - Average Mexican’s intangible wealth = \$34,000

# World Bank Study: Secrets of Intangible Wealth

	<b>United States</b> (per capita)	<b>Mexico</b> (per capita)
<b>Natural Capital</b> (non renewable resources, crop land, pasture, forests)	\$15,000	\$8,500
<b>Produced Capital</b> (Machinery, Equipment, structures, infrastructure, urban land)	\$80,000	\$19,000
<b>Intangible Capital</b> <ul style="list-style-type: none"><li>• <u>Trust among people in a society</u></li><li>• Rule of Law (57%)<ul style="list-style-type: none"><li>– An efficient judicial system (57)%</li><li>– Effective government</li><li>– Clear property rights</li></ul></li><li>• Education (36%)</li></ul> Intangible capital boosts the productivity of labor and results in higher total wealth.	\$418,000	\$34,500
<b>Total</b>	\$513,000	\$62,000





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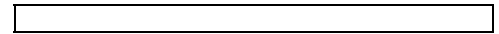
# Summary

- Venture Capital is an accelerator not a catalyst
  - (Capital won't ignite the market if the other factors aren't present)
- Increasing Trust will increase Innovation
- Increasing intangible wealth will drive the development of a virtuous circle
- Mexico has built a solid platform for sustained economic growth
- Private Equity and Venture Capital will become a beneficiary of the stable macro economic environment in Mexico

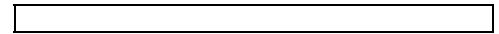
# Early History of VC

- Venture capital investments, before World War II, were primarily the sphere of influence of wealthy individuals and families.
- **General Georges Doriot** is considered to be the father of the modern venture capital industry.
- **Venrock Associates**
  - Rockefeller Family
  - First venture-backed startup is Fairchild Semiconductor
  - Seven-decade Rockefeller tradition of funding entrepreneurs investing more than \$1.8 billion in more than 400 companies
- **Bessemer Venture Partners**
  - Founded by Henry Phipps
  - Henry's first success was Carnegie Steel





**Which family will become the Rockefellers of Mexico?**



**Thank you**

# vSpring Portfolio Companies Since 2000 = 64 Investments

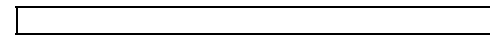
## Top Decile Returns

\$250,000,000 - vSpring Direct Investment

\$550,000,000+ - Co-investors

\$800,000,000+ - Total



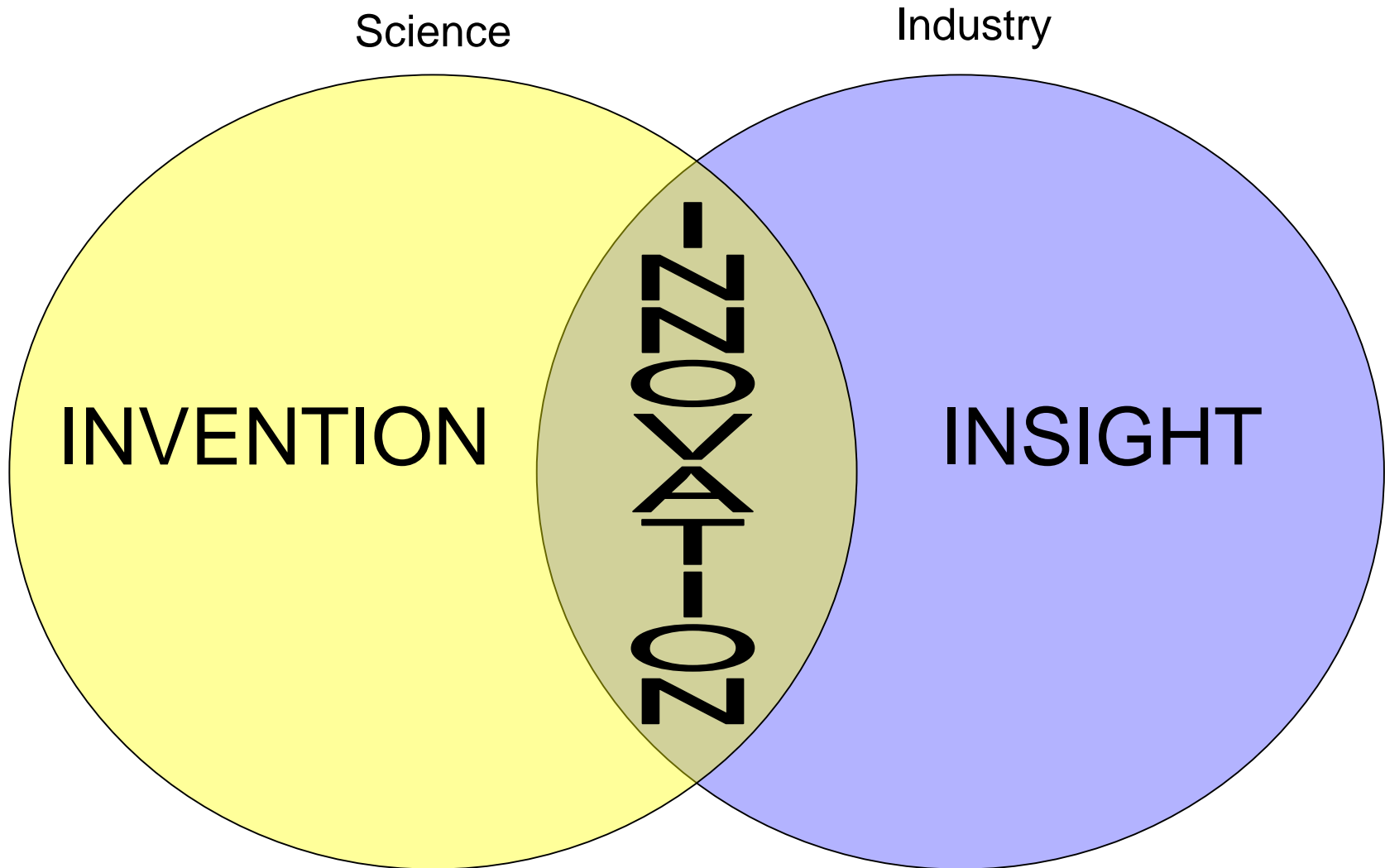


## Drivers of Positive Outcomes

- Human Capital (Entrepreneurship Capacity)
  - Trusted Informal Networks
- Innovation / R&D (Innovation Capacity)
- Venture Capital
- Existing Platforms
- Predictability of State, Local and National Government
- Intangible Wealth Score

What is Innovation?

**Innovation** happens at the intersection of invention and business insight





# Areas where Mexico can improve

1. Rule of Law
  - stable government and business environment
2. Invest in Education
  - Entrepreneurship Capacity (Human Capital)
3. Innovation Capacity (Technology)
4. Critical Mass of Venture Capital

\* 2005 SBA Study - The Innovation- Entrepreneurship NEXUS: A National Assessment of Entrepreneurship and Regional Economic Growth and Development

\* THE 2007 Kaufman Study - STATE NEW ECONOMY INDEX

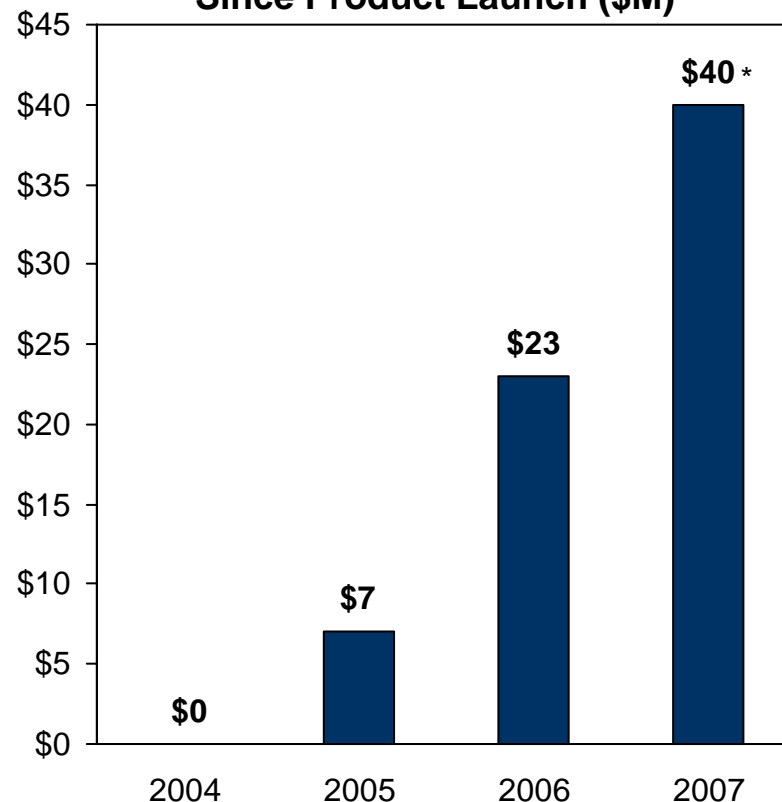


# Case Study: Control4—Mass market, low-cost, wireless home automation system

## Deal Highlights

- **Source:** Partner Network—Scott Petty
- **Investment Thesis:** Successful serial entrepreneur, large unaddressed market, regional competency
- **Strategic Fit**
  - **Region:** Utah-based
  - **Deal Terms:** Pre money \$4.5M, initial stake of 22%, currently 14.4%, board seat
  - **Stage:** Co-led Series A
  - **Sector:** Consumer Electronics and Software
- **Value Add**
  - Developed CEDIA / Retail Channel Strategy
  - Recruited VP engineering and other key executives
  - Assisted in fundraising
  - Focused and enhanced product line strategy
- **Co-Investors:** TWVP, Frazier Technology Ventures, Foundation Capital
- **Results:** \$23 million in '06 sales. Selling through Circuit City, Tweeter, Ultimate & Magnolia

**Control4 Annual Revenue Since Product Launch (\$M)**



**Invest Date:** June 2003 **Last post money:** \$157M

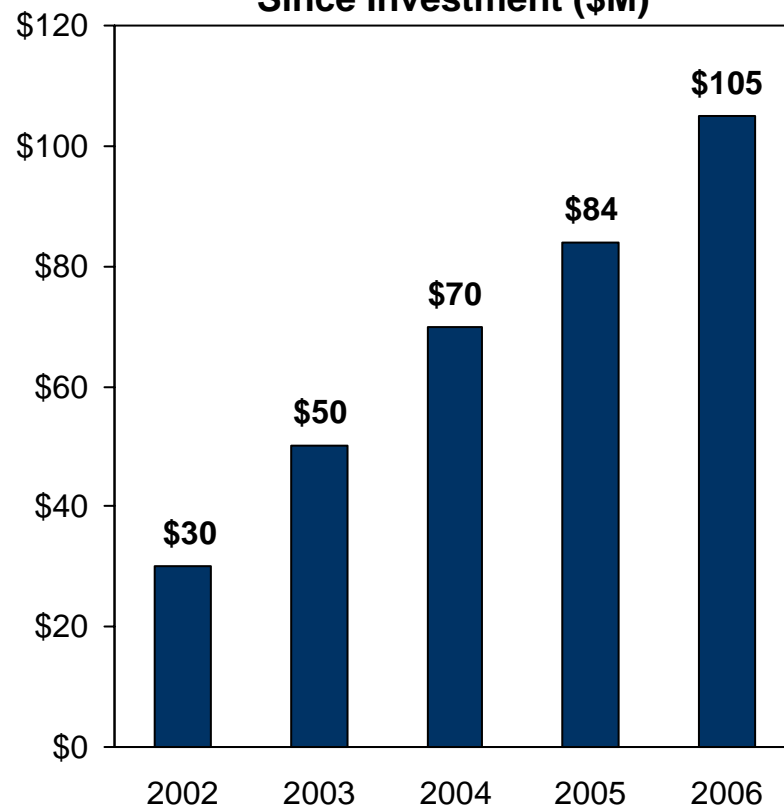
Cost	Value	Multiple	IRR
\$8M	\$20.6M	2.6X	30%

## Case Study: LANDesk—Systems management software

### Deal Highlights

- **Source:** Partner Network—Ed Ekstrom
- **Investment Thesis:** Spin-out undervalued corporate asset with strong channel and best-in-class products
- **Strategic Fit**
  - **Region:** Utah-based
  - **Deal Terms:** 1x revenue, ~14%, board seat
  - **Stage:** Opportunistic later-stage deal in target sector
  - **Sector:** Systems Management Software
- **Value Add**
  - Negotiated spin-out with Intel
  - Worked out IP and channel issues
  - Identified syndicate partners
  - Recruited and placed 16 executives
  - Stabilized team
  - Engineered successful exit
- **Co-Investors:** Vector Capital, Blueprint
- **Results:** Acquired by Avocent for \$416M

LANDesk Revenue Since Investment (\$M)



**Invest Date:** Sept 2002 **Exit:** August 2006

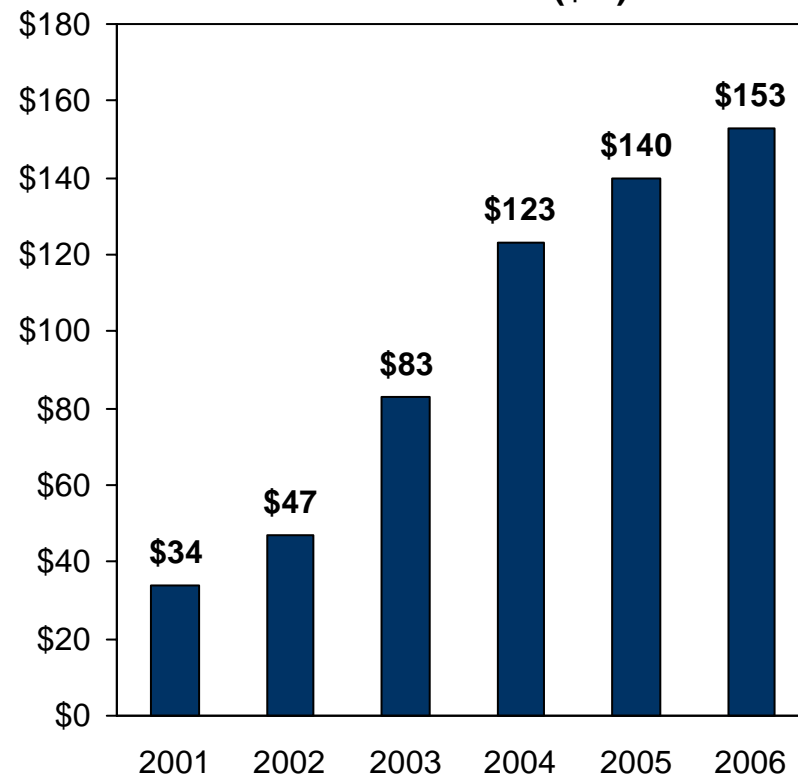
Cost	Value	Multiple	IRR
\$5.5M	\$58.3M	10.6X	79%

## Case Study: The Generations Network—Online genealogy portal

### Deal Highlights

- **Source:** Partner Network—Paul Ahlstrom
- **Investment Thesis:** Strong relationship with management team; sector is a vSpring focus and regional competency
- **Strategic Fit**
  - **Region:** Utah-based
  - **Deal Terms:** \$20M Pre on \$15M round, 5.6% ownership for \$2.2M, board seat
  - **Stage:** Opportunistic later-stage deal in target sector
  - **Sector:** Online genealogy portal
- **Value Add**
  - Organized Series E investment that focused and recapitalized company
  - Recruited CEO, Tom Stockham who lead turnaround and growth
  - Offered ongoing direction with board seat
- **Co-Investors:** Sorenson, Esnet, CMGI
- **Results:** Sold half of our position to secondary firm in June 2007. TGN was sold in October 2007 to Spectrum Equity Investors for \$300M. vSpring received final payment in December 2007. Final multiple of 10.7X and IRR of 46%.

### TGN Revenue Since Investment (\$M)



**Invest Date:** March 2001 **Exit:** June 2007\*

Cost	Value	Multiple	IRR
\$2.2M	\$23.8M	10.7X	46%



# 1. Innovation Capacity

## Innovation Key investment driver in merging Markets

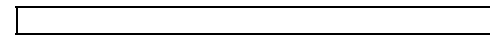
- **Two studies showed that Increased Innovation Capacity Drives Investment in emerging markets.**
  - **Romain Study.** Technological strength (patenting, R&D investment, etc.) were significant predictors of increased VC investment per country.
    - » Romain, A. and B. v. Pottlesberghe. 2004. “The Determinants of Venture Capital: Panel Data Analysis of 16 OECD Countries” Unpublished Working Paper (April).
  - **Guler Study of Patents & Scientific Publications.** One standard deviation increase in a nation’s U.S. patents led to a 78% increase in US Venture dollars into that country. And a 113% investment increase for the same increase in **Scientific Publications.**
    - No other measures including stock market capitalization, political constraints, or number of students studying in the U.S. were as important.
      - » Guler, I. and Guillen, M. F. 2005. “Institutions, Networks, and Organizational Growth: The Internationalization of the U.S. Venture Capital Firms.” (November).
- **Understanding what drives innovation is key to unlocking investment**
  - Singapore Example – 10 Laws of Economic Development
  - TRUST > FLEXIBILITY > CREATIVITY > INNOVATION



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## 2. Human Capital

- **Kaufman Study**
  - Trusted informal networks drive outcomes.
- **SBA Study**
  - Entrepreneurship Capacity Analysis.
- **Utah V100 Story**
  - Many US regions are treated like emerging markets from institutional investors. Have to address it.



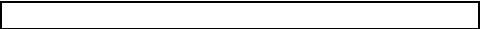
## What Causes a Market to mature?

- Great deals
- What creates create deals?
- Break Through innovation
- How do you get breakthrough innovation?



### 3. Capital

- **Stages of Venture Capital in Emerging Markets**
  - **Cherry Picking** – External VCs will poach a few deals in the region
  - **Hybrid** – Joint venture with a local firm
  - **Home Grown** – Establishment of 100% local firms
- **Venture Capital is an accelerator not a catalyst**
  - Feeds development of a virtuous circle
  - Won't ignite the market if the other two factors aren't present.
- **Globalization of R&D forces capital to globalize**
  - **Micron Study**



# Ecosystem Scorecard

State	Human Capital	Innovation / R&D Investment	Venture Capital	Existing Platforms	Predictability of State/Local Govt.	Average
CA	A	A	A	A	B+	A
TX	A-	B+	A-	A	B+	A-
WA	B+	B	B	B	B	B
CO	B	B+	B-	B	B+	B
UT	B	B	B	C+	B-	B-
AZ	B	C+	C+	B-	B	B-
OR	B	C	C	B-	C	C+
Mexico	B	D	D	B	B-	C